

# BEAVER COUNTY RETIREMENT SYSTEM



## Investment Review First Quarter 2008

### TABLE OF CONTENTS

**LETTER TO THE BOARD .....** Letter Tab

**MARKET RECAP .....** Tab 1

➤ *Banking Crisis Averted (For Now)*

**PERFORMANCE SUMMARY .....** Tab 2

**PORTFOLIO STATISTICS .....** Tab 3

**PORTFOLIO APPRAISAL .....** Tab 4

**MEDIA PERSPECTIVE .....** Tab 5

➤ “Trying to Get Up Off the Mat” - *The Wall Street Journal, April 1, 2008*



## CIM INVESTMENT MANAGEMENT, INC.

Investment Building, 239 Fourth Ave., Suite 1302, Pittsburgh, PA 15222

Beaver County Retirement System  
County Courthouse  
810 Third Street  
Beaver, PA 15009

April 23, 2008

Dear Members of the Board:

The first quarter of 2008 was historical in its significance. The Federal Reserve Board made financing available to J.P. Morgan to facilitate the acquisition Bear Stearns. Along with more easing of interest rates and a newly established lending facility, the Fed is providing enhanced liquidity to the banking system and to broker dealers.

The S & P 500 Index returned -9.45% for the quarter. The Dow Jones Industrial Average was also down, returning -7.03% and the NASDAQ was -14.07%. Small cap stocks were down as well, with the Russell 2000 returning -9.91% and the S & P 600 -7.46%. The Lehman Aggregate Bond Index had a return of +2.17% and the Lehman Government Credit Bond Index was +2.53%.

Despite the negative returns in stocks, there are signs that the markets have something positive to look forward to. The dollar could rise as other countries experience slower growth and as the Fed gets close to the end of interest rate cuts. Inflation is also likely to subside as we hit slower economic growth. Finally, oil prices could fall as the dollar stabilizes and as growth slows in China and India, reducing the demand for petroleum.

Yours very truly,

CIM INVESTMENT MANAGEMENT, INC.

Andrew C. Fisher  
President

Sarah E. R. Wilson  
First Vice President

# MARKET RECAP

## Banking Crisis Averted (For Now) – December 31, 2007 to March 31, 2008

February and early March were six weeks of anxiety for the credit markets. Liquidity dried up, causing layoffs on Wall Street and making it almost impossible to trade mortgage backed securities. The Federal Reserve stepped in with unconventional but effective intervention to bring relief to the bond market. The signal event was the decision to arrange a buyout of mortgage giant Bear Stearns through JP Morgan. The Fed maneuvered the acquisition at roughly \$10 a share (up from the original \$2) although Bear Stearns had been trading at \$92.89 per share as recently as February 1st. The market is also aware of the similarities of this arrangement to the Bank of America acquisition of Countrywide Financial. As a result, securities firms may soon be regulated in a manner similar to banks.

The stock market was also affected by the liquidity crunch. Expectations for low or negative growth in real GDP have weighed on stock prices as the market anticipates weak earnings growth during a recession or a slowdown in growth. The technical definition of a recession is two or more consecutive quarters of negative GDP growth (after adjusting for inflation). Thus far in 2008, equities have posted disappointing performance. As the extent of mortgage losses among financial institutions becomes clearer, stocks should improve. The market can absorb negative news in stride, but uncertainty creates havoc because of the attendant difficulty in determining company valuations.

The Fed lowered the Federal Funds rate by a total of 200 basis points among three rate cuts during the first quarter,

leaving the rate at 2.25% on March 18<sup>th</sup>. On March 16th, the central bank announced the creation of a Term Securities Lending Facility, lending Treasury bonds to dealers in exchange for triple-A rated mortgage pass-through securities. The

Lehman Government Credit and Intermediate Government Credit bond indices returned +2.53 and +3.00%, respectively, for the quarter. The Lehman Aggregate and Intermediate Aggregate bond indices returned +2.17% and +2.35%, respectively. The Treasury yield curve steepened dramatically; the difference between the yield on the Treasury 3-month Bill and the 30-year bond rose from 121 basis points at the beginning of January

this year to 297 basis points by March 31st. The Dow Jones Industrial Average returned -7.03%, the S & P 500 was -9.45% and the NASDAQ was -14.07% for the quarter. Small cap stocks also struggled; the Russell 2000 returned -9.91% and the S & P 600 was -7.46% for the quarter. Mid-cap stocks returned -8.85% and the MSCI EAFE Index, the proxy for International Equities, was -8.83%.

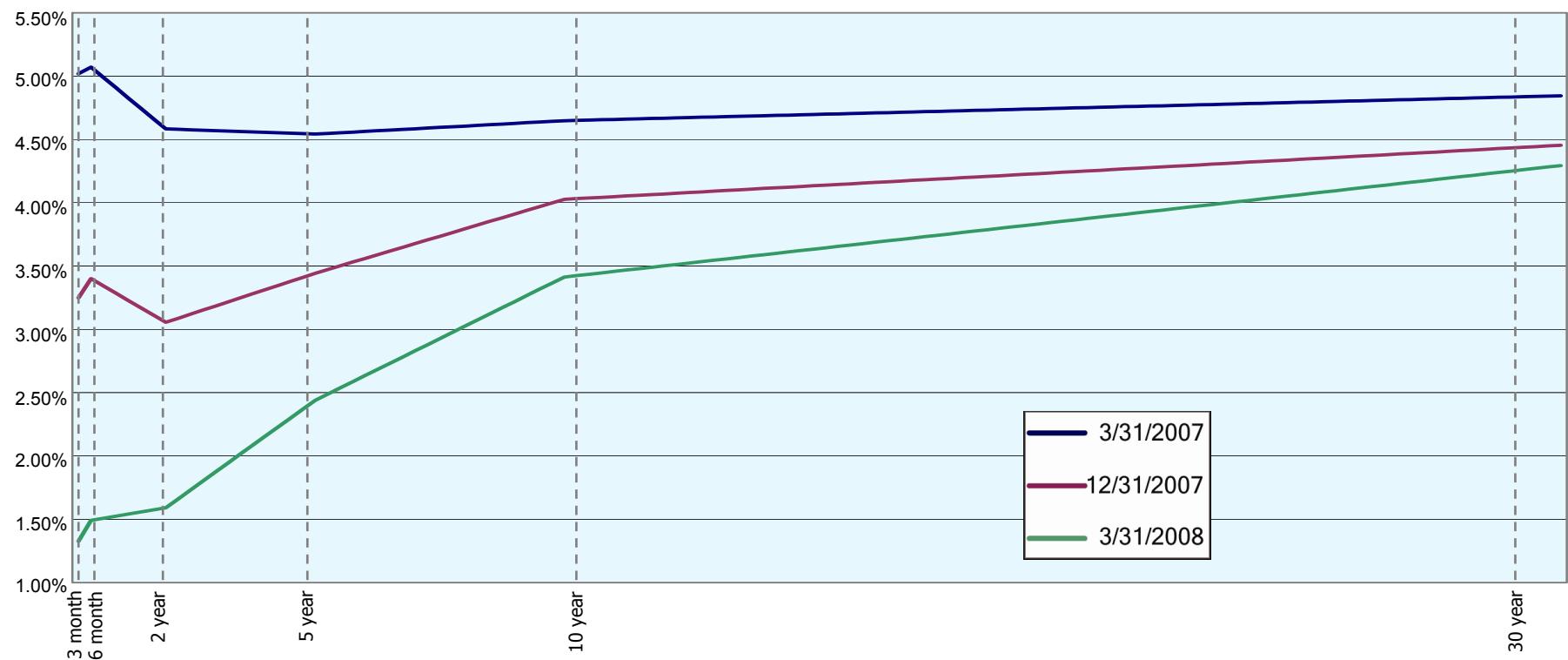
The past 12 months have been marked by volatility and illiquidity. Stocks were concentrated within a narrow band of very large cap names. This is reflected in the comparison of capitalization weighted returns to equal weighted returns. The former trounced the latter in the large, medium and small cap categories. In bonds, Treasuries led the way, as investors ran from asset backed securities of all kinds and from financials. This did reverse itself somewhat in March. The panic trading should subside in 2008 when we expect the capital markets to return to some semblance of normal trading patterns.

Index Returns		
	Quarter 12/31/07-3/31/08	One-Year 3/31/07-3/31/08
S&P 500	(9.45%)	(5.08%)
S&P MidCap 400	(8.85)	(6.97)
S&P SmallCap 600	(7.46)	(10.60)
Russell 2000	(9.91)	(13.03)
Dow Jones Industrials	(7.03)	1.56
NASDAQ	(14.07)	(5.89)
MSCI EAFE	(8.83)	(2.29)
Lehman Aggregate	2.17	7.67
Lehman Gov./Credit	2.53	8.35



# U.S. Treasury Yield Curve

First Quarter 2008



	<u>3/31/2007</u>	<u>12/31/2007</u>	<u>3/31/2008</u>	<u>Quarterly Change</u>	<u>Annual Change</u>
3 Month	5.03%	3.25%	1.33%	(1.92%)	(3.70%)
6 Month	5.07	3.40	1.49	(1.91)	(4.24)
2 Year	4.58	3.06	1.59	(1.47)	(2.99)
5 Year	4.54	3.44	2.44	(1.00)	(2.10)
10 Year	4.65	4.03	3.41	(0.62)	(1.24)
30 Year	4.84	4.45	4.29	(0.16)	(0.55)

# ECONOMIC MATRIX

	Comments	Market Impact	
<b>ECONOMIC GROWTH</b>	More economists are predicting recession-like GDP figures for the first half of 2008. Fourth quarter real GDP ran at an annual rate of 0.6%.	Bonds have been held back by a lack of liquidity and by 4% plus inflation. Equities have clearly suffered from the economic outlook.	Bearish for stocks Bullish for bonds
<b>INFLATION</b>	Gold hit \$1000 per troy ounce and oil was as high as \$110 in the quarter before retreating. Inflation is running at over 4% annually.	Although the fixed income markets are concerned about inflation, there is growing sentiment that prices will slow as the economy slows.	Neutral for stocks Bearish for bonds
<b>MONETARY POLICY</b>	The Fed dropped short term interest rates by 200 basis points in the first quarter. Perhaps more importantly, the central bank introduced unconventional methods for injecting liquidity into the banking system.	The markets reacted positively to Fed actions. Fed Chairman Ben Bernanke has shown a willingness to take aggressive and creative steps to maintain the liquidity and viability of the banking system.	Bullish for stocks Bullish for bonds
<b>FISCAL POLICY</b>	The stimulus package involving tax rebates to most American taxpayers is in place. It is looking more certain that the Bush tax cuts will be allowed to expire after 2010.	Look for fiscal policy to complement monetary policy. In other words, when the Fed is easing, it is less likely that taxes will be increased or that government spending will be curtailed.	Bullish for stocks Bullish for bonds
<b>FOREIGN EXCHANGE</b>	The dollar is still in decline. The U.S. is not in a position to raise short term interest rates to support its currency.	The U.S. has tens of trillions of dollars in unfunded liabilities for entitlement programs. This has not been addressed by policymakers.	Bearish for stocks Bearish for bonds
<b>TECHNICAL FACTORS</b>	History shows that high volatility signals market bottoms, not tops. Volatility is at a 5-year high, as measured by the Absolute Percentage Change Indicator (APC).	Volatility often signals a substantial stock market rally to come.	Bullish for stocks Neutral for bonds

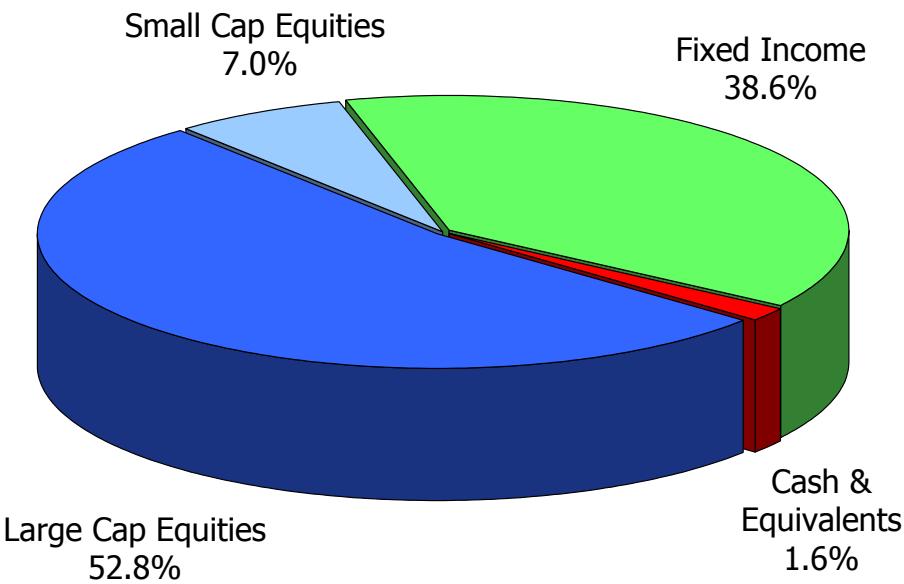
**Summary:** The Fed dropped short term interest rates by a total of 200 basis points between January and March. They also arranged mergers between stronger banks and struggling mortgage lenders and dealers. A vocal minority in the markets have criticized the Fed for their intervention. Others interpreted these actions as a legitimate use of the fed's authority as the nation's "Lender of Last Resort." The markets reacted positively but we will be watching second quarter market performance for signs of the direction of the economy and a possible end to the banking crisis.



# PERFORMANCE SUMMARY

## Beaver County Retirement System as of March 31, 2008

Asset Allocation



**PORTFOLIO VALUE ON 12/31/07 .....** \$94,149,138.82

**CONTRIBUTIONS.....** 3,202,238.07

**WITHDRAWALS.....** (3,009,415.96)

**REALIZED GAINS.....** (1,186,558.94)

**UNREALIZED GAINS.....** (3,054,533.88)

**INTEREST .....** 556,944.80

**DIVIDENDS.....** 313,582.66

**CHANGE IN ACCRUED INTEREST.....** (85,123.76)

**PORTFOLIO VALUE ON 3/31/08 .....** \$90,886,271.81

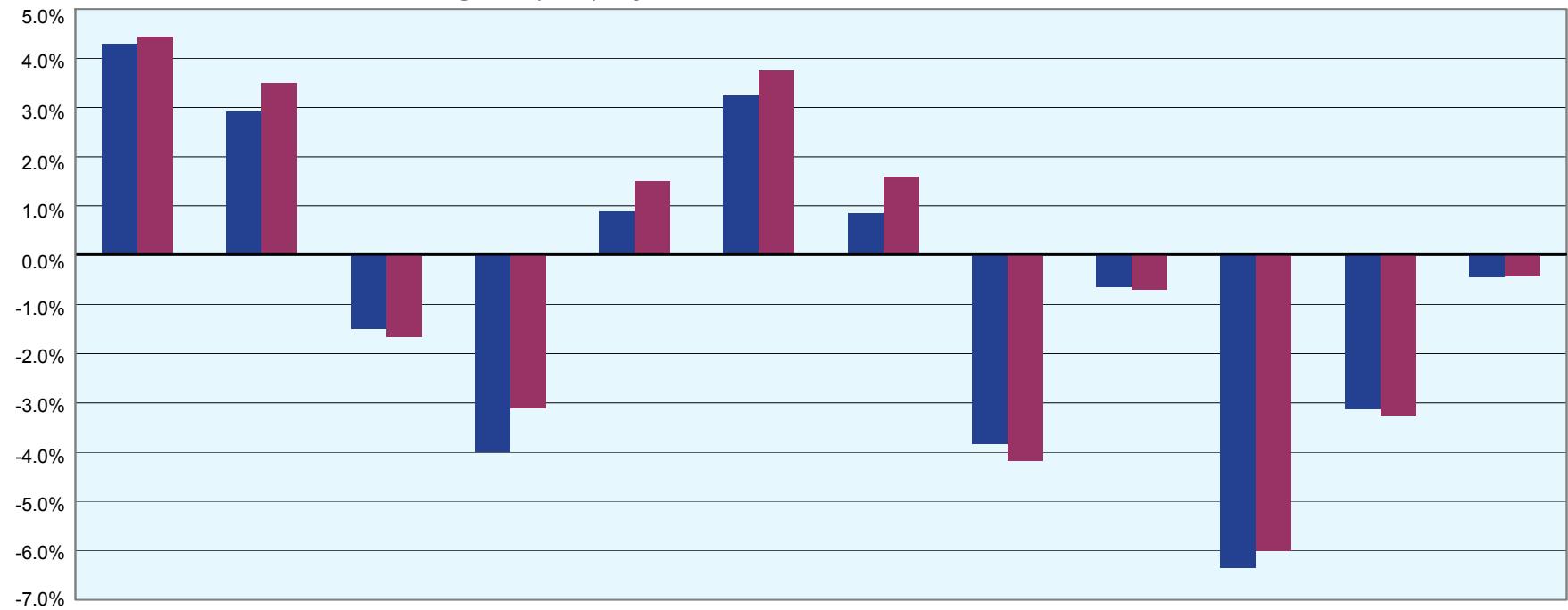
**TOTAL INVESTMENT GAIN  
FOR TRAILING 3 MONTHS.....** (\$3,455,689.12)

	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Total Return</u>
First Quarter 2008 (12/31/07 to 3/31/08)	94,149,138.85	90,886,271.81	(3.69%)
Trailing 12 Months (3/31/07 to 3/31/08)	78,564,582.22	90,886,271.81	(1.37%)
Inception to Date (12/26/95 to 3/31/08)	29,690,332.35	90,886,271.81	146.95%



# Portfolio Performance Compared to Benchmark

## Large Cap Equity Performance 1 Year – 3/31/07 to 3/31/08



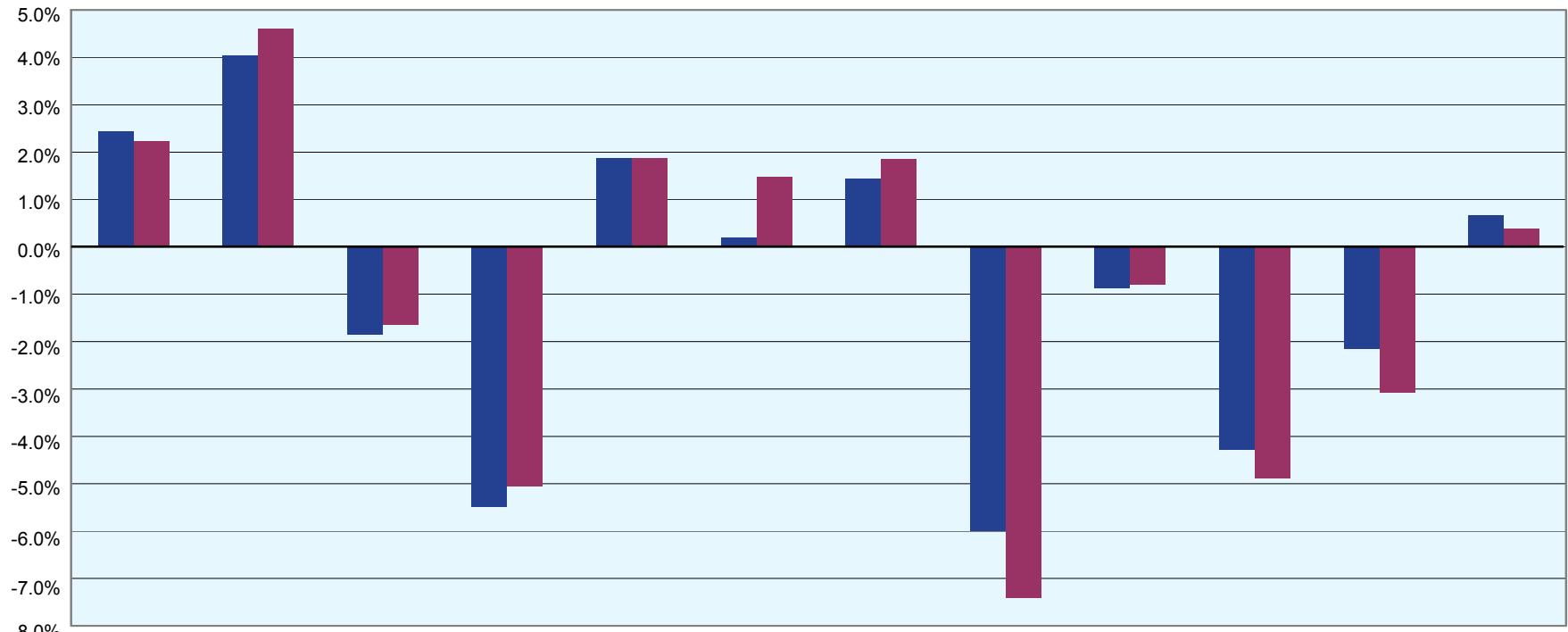
	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sept 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08
Beaver	4.29	2.92	(1.50)	(4.00)	0.89	3.24	0.85	(3.84)	(0.64)	(6.35)	(3.13)	(0.45)
Benchmark	4.43	3.49	(1.66)	(3.10)	1.50	3.74	1.59	(4.18)	(0.69)	(6.00)	(3.25)	(0.43)
Difference	(0.14)	(0.57)	0.16	(0.90)	(0.61)	(0.50)	(0.74)	0.34	0.05	(0.35)	0.12	(0.02)

	<u>Beaver</u>	<u>Standard &amp; Poor's 500 Index</u>
First Quarter 2008 (12/31/07 to 3/31/08)	(9.69%)	(9.44%)
Trailing 12 Months (3/31/07 to 3/31/08)	(8.02%)	(5.08%)



# Portfolio Performance Compared to Benchmark

## Small Cap Equity Performance 1 Year – 3/31/07 to 3/31/08



	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sept 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08
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Beaver	2.44	4.05	(1.86)	(5.50)	1.88	0.19	1.45	(6.00)	(0.88)	(4.29)	(2.16)	0.67
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Benchmark	2.23	4.60	(1.64)	(5.05)	1.87	1.49	1.86	(7.42)	(0.79)	(4.89)	(3.08)	0.39
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Difference	0.21	(0.55)	(0.22)	(0.45)	0.01	(1.30)	(0.41)	1.42	(0.09)	0.60	0.92	0.28
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**Beaver**

**Standard & Poor's  
600 Index**

First Quarter 2008 (12/31/07 to 3/31/08) (5.74%)

Trailing 12 Months (3/31/07 to 3/31/08) (10.10%)

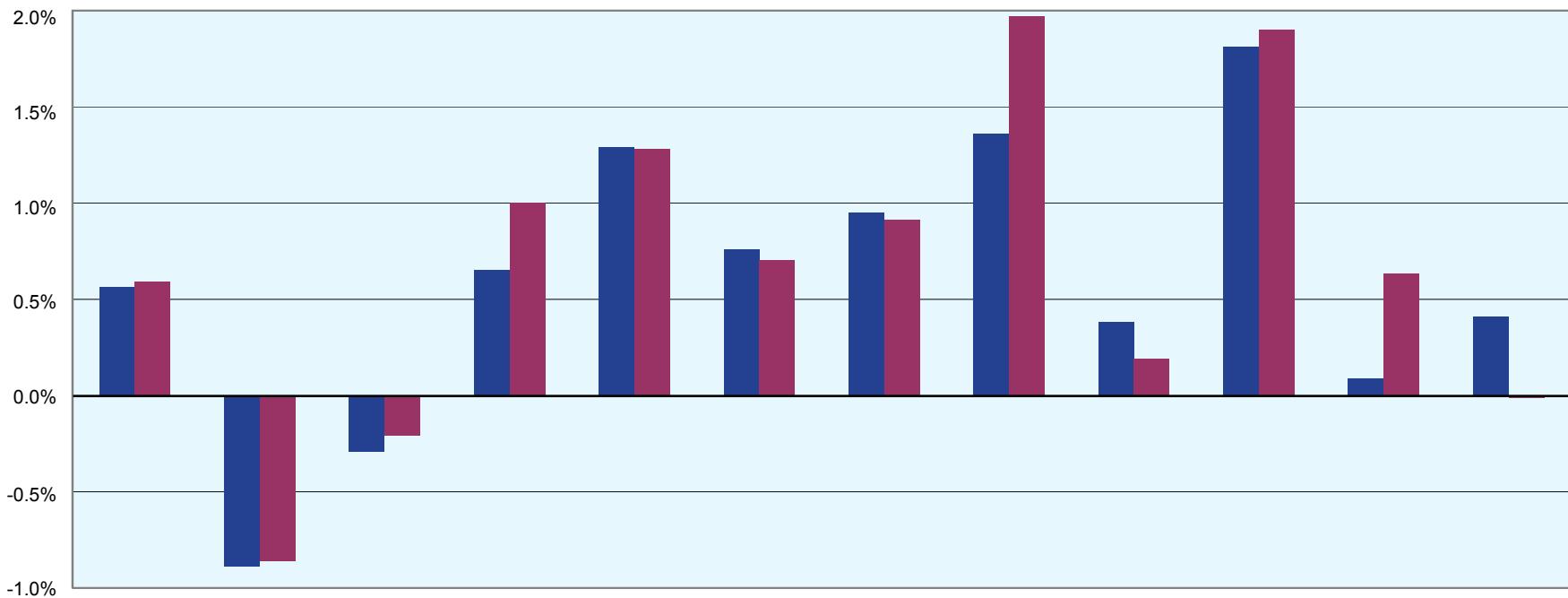
(7.46%)

(10.60%)



# Portfolio Performance Compared to Benchmark

Fixed Income Performance 1 Year – 3/31/07 to 3/31/08



	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sept 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08
Beaver	0.56	(0.89)	(0.29)	0.65	1.29	0.76	0.95	1.36	0.38	1.81	0.09	0.41
Benchmark	0.59	(0.86)	(0.21)	1.00	1.28	0.70	0.91	1.97	0.19	1.90	0.63	(0.01)
Difference	(0.03)	(0.03)	(0.08)	(0.35)	0.01	0.06	0.04	(0.61)	0.19	(0.09)	(0.54)	0.42

*Lehman Bros.*  
*Government/Credit Index*

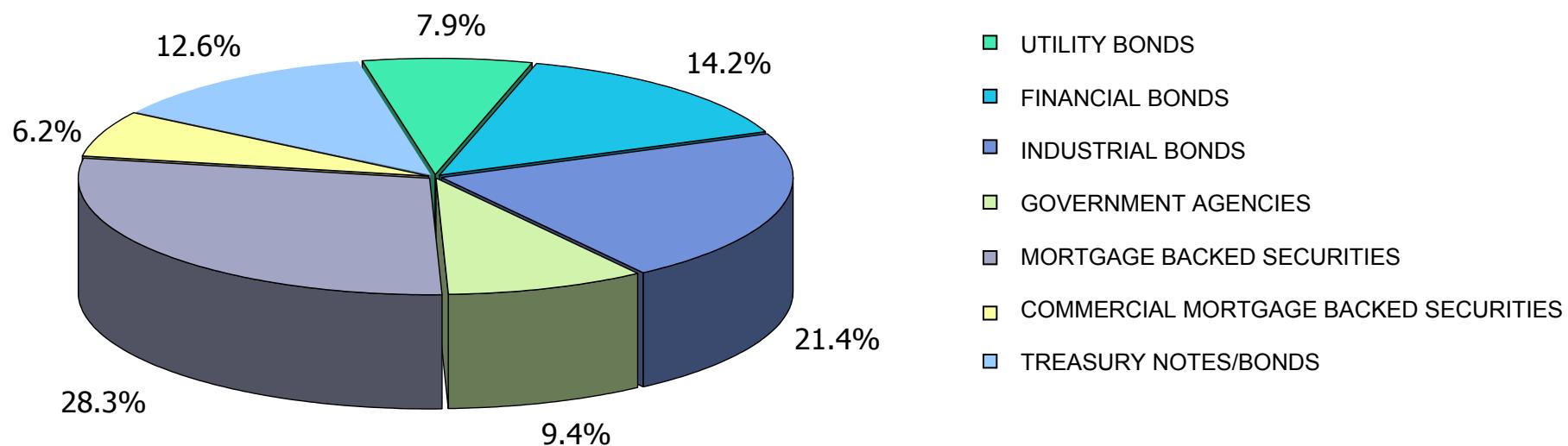
First Quarter 2008 (12/31/07 to 3/31/08)	2.32%	2.53%
Trailing 12 Months (3/31/07 to 3/31/08)	7.29%	8.35%



# PORTFOLIO STATISTICS

## Beaver County Retirement System – Fixed Income Account as of March 31, 2008

### Asset Allocation



### Statistical Characteristics

	<u>Beaver</u>	<u>LBGC</u>
Coupon	5.55%	5.33%
Yield to Maturity	5.42%	3.91%
Modified Adjusted Duration	5.18 yrs	5.37 yrs
Average Price	\$103.10	\$105.42
Average Credit Quality	Aa3	Aa2

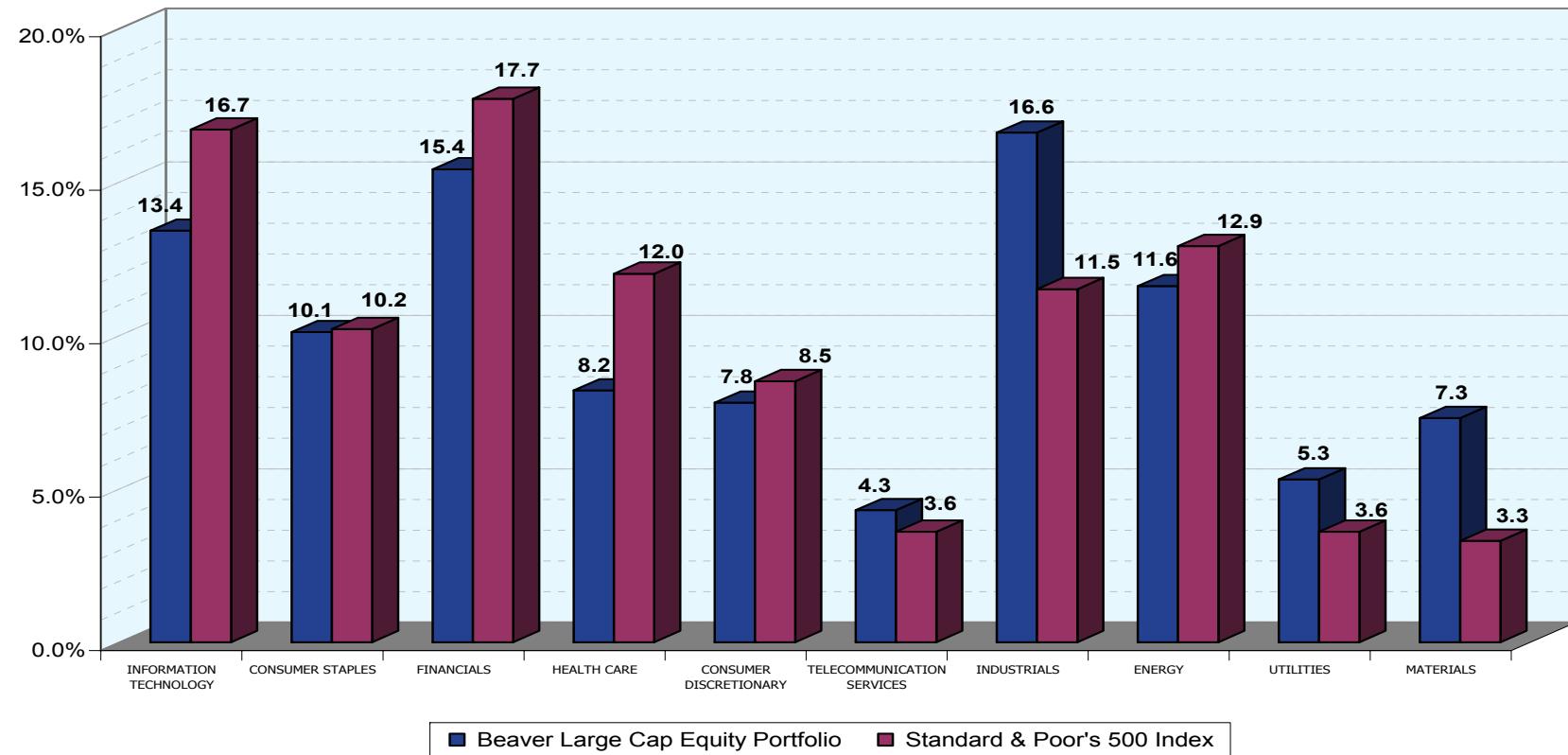
### Sector Allocation

	<u>Beaver</u>	<u>LBGC</u>
Utility Bonds	7.9%	3.5%
Financial Bonds	14.2%	14.9%
Industrial Bonds	21.4%	16.5%
Government Agencies	9.4%	17.9%
Other Government	0.0%	6.3%
Mortgage Backed Securities	28.3%	0.0%
Commercial Mortgage Backed Securities	6.2%	0.0%
Treasury Notes/Bonds	12.6%	40.9%



# PORTFOLIO STATISTICS

## Beaver County Retirement System – Large Cap Portfolio Industry Sector Diversification as of March 31, 2008



### Top Ten Equity Holdings

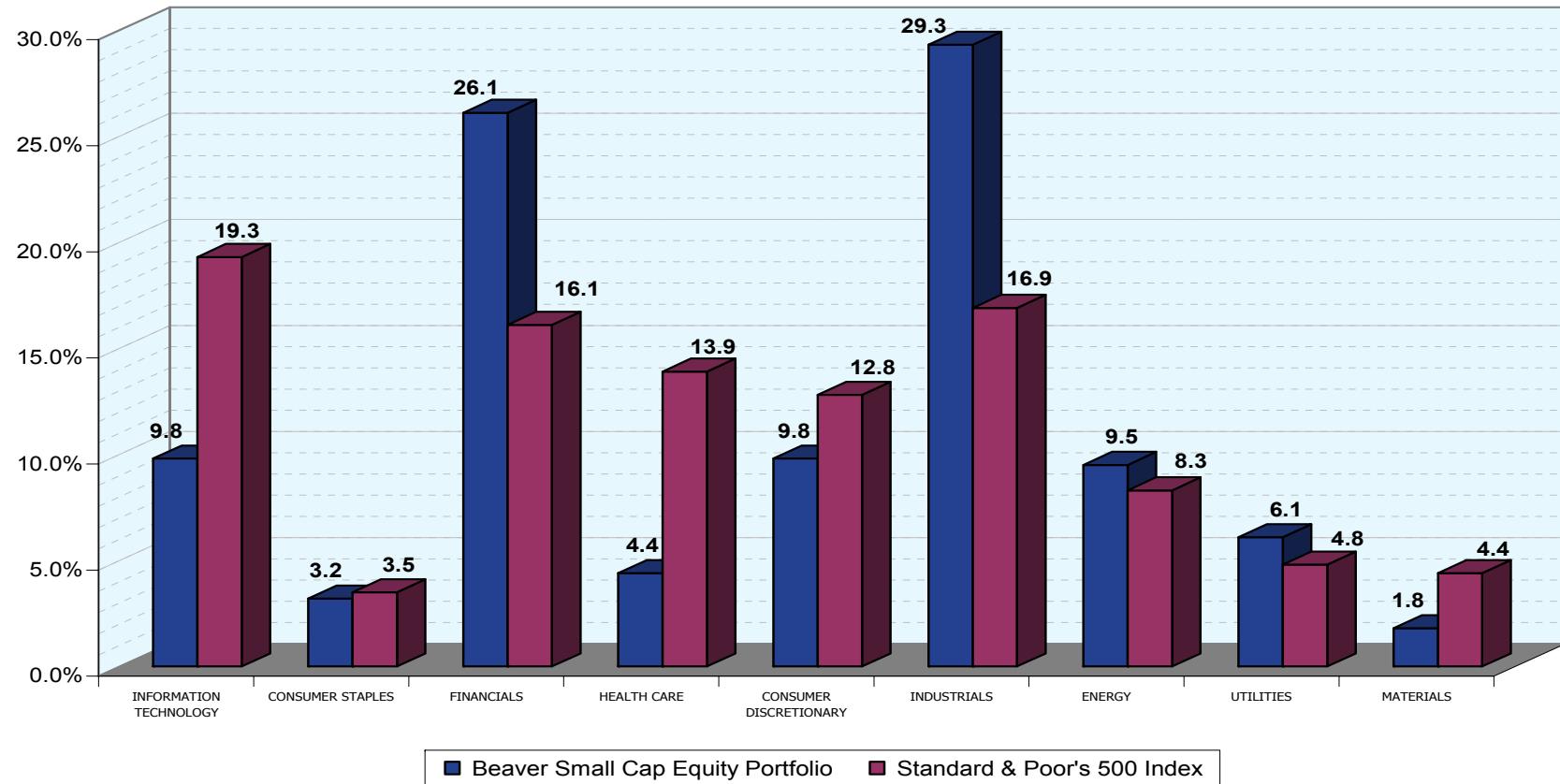
	percentage		percentage
1. Exxon Mobil Corp.	3.9	6. Cisco Systems, Inc.	1.5
2. General Electric Co.	3.2	7. Procter & Gamble	1.5
3. Microsoft Corp.	2.1	8. Chevron Texaco Corp.	1.4
4. AT&T	1.8	9. Torchmark Corp,	1.4
5. Int'l Bus Machines	1.6	10. Bank of America Corp.	1.4



# PORTFOLIO STATISTICS

## Beaver County Retirement System – Small Cap Portfolio Industry Sector Diversification

as of March 31, 2008



### Top Ten Equity Holdings

	percentage		percentage
1. Susquehanna Bancsh	2.0	6. Atmos Energy Corp.	1.7
2. Oceaneering Intl Inc.	1.9	7. Watson Wyatt WW Cl-A	1.6
3. Kirby Corp.	1.9	8. First Midwest Bancorp	1.6
4. Cabot Oil & Gas	1.8	9. National Retail Properties	1.6
5. UMB Financial Corp.	1.8	10. Essex Property Trust	1.5



# BEAVER COUNTY RETIREMENT SYSTEM PORTFOLIO APPRAISAL

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
<b>COMMON STOCK</b>								
INFORMATION TECHNOLOGY								
2,040	ANSYS Inc.	38.23	77,979.41	34.52	70,420.80	0.1	0.00	0.0
3,795	Apple Computer	107.54	408,128.10	143.50	544,582.50	0.6	0.00	0.0
4,160	Benchmark Electronics	19.46	80,955.29	17.95	74,672.00	0.1	0.00	0.0
5,600	Brooks Automation Inc	12.00	67,180.62	9.72	54,432.00	0.1	0.00	0.0
10,970	CA Inc.	21.24	233,005.09	22.50	246,825.00	0.3	438.80	0.2
30,360	Cisco Systems, Inc.	16.46	499,764.12	24.09	731,372.40	0.8	0.00	0.0
10,250	Corning Inc.	21.60	221,380.53	24.04	246,410.00	0.3	512.50	0.2
1,830	Cymer Inc.	27.97	51,189.40	26.04	47,653.20	0.1	0.00	0.0
1,040	Google Inc Cl-B	455.78	474,014.22	440.47	458,088.80	0.5	0.00	0.0
12,125	Hewlett Packard Co.	22.70	275,291.23	45.66	553,627.50	0.6	970.00	0.2
3,740	Insight Enterprises Inc.	16.62	62,158.05	17.50	65,450.00	0.1	0.00	0.0
6,745	Int'l Bus Machines	69.98	472,038.62	115.14	776,619.30	0.9	2,698.00	0.3
30,425	Intel Corporation	19.20	584,174.00	21.18	644,401.50	0.7	3,879.19	0.6
3,575	MKS Instruments Inc.	17.17	61,377.39	21.40	76,505.00	0.1	0.00	0.0
2,310	Manahattan Associates	24.88	57,469.10	22.93	52,968.30	0.1	0.00	0.0
1,890	Micros Syst Inc	32.34	61,122.60	33.66	63,617.40	0.1	0.00	0.0
2,705	Microsemi Corp.	21.33	57,696.00	22.80	61,674.00	0.1	0.00	0.0
34,735	Microsoft Corporation	26.64	925,394.69	28.38	985,779.30	1.1	3,820.85	0.4
20,040	Motorola, Inc.	12.15	243,484.00	9.30	186,372.00	0.2	1,002.00	0.5
20,145	Oracle Systems Corp.	15.56	313,364.79	19.56	394,036.20	0.4	0.00	0.0
8,165	Qualcomm Inc.	36.16	295,255.31	41.00	334,765.00	0.4	1,143.10	0.3
11,480	Texas Instruments	26.04	298,886.20	28.27	324,539.60	0.4	1,148.00	0.4
2,010	Varian Semiconductor	12.75	25,636.77	28.15	56,581.50	0.1	0.00	0.0
			5,846,945.55		7,051,393.30	7.8	15,612.44	0.2
CONSUMER STAPLES								
8,605	Altria Group Inc.	11.41	98,143.26	22.20	191,031.00	0.2	6,453.75	3.4
30,995	Autonation Inc.	17.81	552,112.10	14.97	463,995.15	0.5	0.00	0.0
6,890	CVS Corp.	37.12	255,756.80	40.51	279,113.90	0.3	413.40	0.1
8,730	Campbell Soup Co.	35.66	311,269.74	33.95	296,383.50	0.3	1,920.60	0.6
8,205	Coca Cola Co.	57.59	472,495.59	60.87	499,438.35	0.5	3,117.90	0.6
3,155	Flowers Foods Inc	22.95	72,404.41	24.75	78,086.25	0.1	394.37	0.5
2,315	Hain Celestial Group Inc.	29.80	68,987.00	29.50	68,292.50	0.1	0.00	0.0
8,800	Kellogg Company	48.25	424,619.92	52.56	462,528.00	0.5	2,728.00	0.6
8,516	Kraft Foods Inc.	20.67	176,056.85	31.01	264,081.16	0.3	2,299.32	0.9



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
6,870	Pepsi Bottling Gp.	32.20	221,214.00	33.91	232,961.70	0.3	961.80	0.4
5,635	Pepsico Inc.	44.00	247,937.40	72.20	406,847.00	0.4	2,113.12	0.5
8,605	Philip Morris Intl.	25.58	220,079.06	50.58	435,240.90	0.5	0.00	0.0
10,295	Procter & Gamble	53.69	552,687.29	70.07	721,370.65	0.8	3,603.25	0.5
980	Texas Industries Inc.	65.26	63,956.70	60.11	58,907.80	0.1	73.50	0.1
10,260	Wal-Mart Stores	49.39	506,725.25	52.68	540,496.80	0.6	2,257.20	0.4
			4,244,445.37		4,998,774.66	5.5	26,336.22	0.5
<b>FINANCIALS</b>								
2,555	Acadia Realty Trust	24.93	63,706.63	24.15	61,703.25	0.1	568.49	0.9
11,781	American Int'l Grp, Inc.	51.45	606,171.87	43.25	509,528.25	0.6	2,356.20	0.5
7,691	Apt Inv't & Mgmt Co-A	49.26	378,886.43	35.81	275,414.71	0.3	4,614.60	1.7
2,860	Avalonbay Comm, Inc.	86.12	246,298.91	96.52	276,047.20	0.3	2,552.55	0.9
17,413	Bank of America Corp.	32.34	563,171.44	37.91	660,126.83	0.7	11,144.32	1.7
6,460	Bank of NY Co.	44.64	288,372.46	41.73	269,575.80	0.3	1,550.40	0.6
2,450	Biomed Realty Trust Inc.	22.38	54,837.62	23.89	58,530.50	0.1	759.50	1.3
8,555	Cincinnati Financial	40.98	350,543.60	38.04	325,432.20	0.4	3,336.45	1.0
21,990	Citigroup - New	31.00	681,771.58	21.42	471,025.81	0.5	7,036.80	1.5
7,510	Comerica Inc.	37.09	278,542.15	35.08	263,450.80	0.3	4,956.60	1.9
2,307	Delphi Fin Gp-A	34.34	79,232.46	29.23	67,433.61	0.1	207.63	0.3
7,960	Developers Div. Rlty.	34.26	272,673.78	41.88	333,364.80	0.4	5,492.40	1.6
1,550	Entertainment Prop Inc	41.63	64,529.15	49.33	76,461.50	0.1	1,178.00	1.5
840	Essex Property Trust	106.79	89,705.29	113.98	95,743.20	0.1	856.80	0.9
4,965	Federated Inv - Cl B	31.35	155,644.18	39.16	194,429.40	0.2	1,042.65	0.5
14,330	First Horizon	28.25	404,820.85	14.01	200,763.30	0.2	2,866.00	1.4
3,635	First Midwest Bancorp	31.03	112,776.31	27.77	100,943.95	0.1	1,126.85	1.1
3,837	Glacier Bancorp	18.41	70,651.53	19.17	73,555.29	0.1	498.81	0.7
2,480	Goldman Sachs Grp.	98.66	244,672.40	165.39	410,167.20	0.5	868.00	0.2
26,540	Huntington Bancshares	11.11	294,831.66	10.75	285,305.00	0.3	7,033.10	2.5
1,320	Investment Tech Grp.	43.21	57,038.10	46.18	60,957.60	0.1	0.00	0.0
15,000	JP Morgan Chase	33.28	499,144.51	42.95	644,250.00	0.7	5,700.00	0.9
1,525	Kilroy Realty	57.95	88,376.13	49.11	74,892.75	0.1	884.50	1.2
5,500	Lexington Corp PPTYS	17.19	94,553.67	14.41	79,255.00	0.1	1,815.00	2.3
3,460	M&T Bank	107.70	372,643.50	80.48	278,460.80	0.3	2,422.00	0.9
11,160	Marshall & Ilsley Corp.	22.38	249,738.48	23.20	258,912.00	0.3	12,052.80	4.7
6,200	Merrill Lynch & Co.	51.65	320,210.85	40.74	252,588.00	0.3	2,170.00	0.9
6,455	Morgan Stanley	39.08	252,271.70	45.70	294,993.50	0.3	1,742.85	0.6
4,520	National Retail Properties	21.31	96,333.86	22.05	99,666.00	0.1	1,695.00	1.7
1,425	PS Business Parks Inc./CA	47.53	67,734.95	51.90	73,957.50	0.1	627.00	0.8



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
1,745	Philadelphia Cons	36.08	62,958.03	32.20	56,189.00	0.1	0.00	0.0
1,370	Proassurance Corp	48.33	66,210.75	53.83	73,747.10	0.1	0.00	0.0
5,265	Safeco Corporation	60.17	316,795.35	43.88	231,028.20	0.3	2,106.00	0.9
2,895	Senior Housing Prop Tr.	21.39	61,910.15	23.70	68,611.50	0.1	1,013.25	1.5
5,245	South Financial Grp.	13.57	71,164.16	14.86	77,940.70	0.1	996.55	1.3
6,320	Susquehanna Bancsh	19.43	122,822.05	20.37	128,738.40	0.1	1,643.20	1.3
6,015	T Rowe Price Gr	47.86	287,877.90	50.00	300,750.00	0.3	1,443.60	0.5
2,050	Tanger Factory Outlet Center	35.27	72,295.51	38.47	78,863.50	0.1	738.00	0.9
11,025	Torchmark Corp.	55.50	611,935.20	60.11	662,712.75	0.7	1,543.50	0.2
2,705	UMB Financial Corp.	37.71	102,004.47	41.20	111,446.00	0.1	405.75	0.4
3,230	United Bankshares Inc.	27.32	88,256.84	26.65	86,079.50	0.1	936.70	1.1
1,420	Zenith Natl Ins Cp	41.99	59,620.31	35.86	50,921.20	0.1	710.00	1.4
			9,323,736.78		9,053,963.60	10.0	100,691.85	1.1
HEALTH CARE								
6,400	Abbott Laboratories	43.82	280,445.45	55.15	352,960.00	0.4	2,304.00	0.7
5,810	Amgen Inc.	50.12	291,206.72	41.78	242,741.80	0.3	0.00	0.0
7,495	Applied Biosystems	31.84	238,640.80	32.86	246,285.70	0.3	318.54	0.1
10,985	Bristol Myers Squibb	24.40	268,076.52	21.30	233,980.50	0.3	3,405.35	1.5
5,460	Gilead Sciences Inc.	44.43	242,581.25	51.53	281,353.80	0.3	0.00	0.0
1,360	Idexx Laboratories Inc.	24.63	33,495.56	49.26	66,993.60	0.1	0.00	0.0
1,740	Immucor Inc.	30.78	53,557.20	21.34	37,131.60	0.0	0.00	0.0
8,935	Johnson & Johnson	49.96	446,413.46	64.87	579,613.45	0.6	3,708.02	0.6
5,860	Lilly (ELI) Co.	60.00	351,601.67	51.59	302,317.40	0.3	2,754.20	0.9
8,920	Merck & Co. Inc.	49.88	444,914.56	37.95	338,514.00	0.4	3,389.60	1.0
1,260	Owens & Minor Inc	42.25	53,232.23	39.34	49,568.40	0.1	252.00	0.5
1,140	Pediatrix Medical Grp Inc.	48.76	55,589.59	67.40	76,836.00	0.1	0.00	0.0
29,820	Pfizer Inc.	30.81	918,689.54	20.93	624,132.60	0.7	9,542.40	1.5
10,630	Schering-Plough	24.38	259,208.60	14.41	153,178.30	0.2	6,803.20	4.4
2,160	Sunrise Senior Living	26.64	57,537.00	22.28	48,124.80	0.1	0.00	0.0
5,065	UnitedHealth Group	51.60	261,346.40	34.36	174,033.40	0.2	151.95	0.1
3,535	WellPoint Health	79.89	282,426.70	44.13	155,999.55	0.2	0.00	0.0
6,425	Wyeth	39.60	254,429.98	41.76	268,308.00	0.3	1,799.00	0.7
			4,793,393.22		4,232,072.90	4.7	34,428.26	0.8
CONSUMER DISCRETIONARY								
16,862	Comcast Corp.-Cl A	18.07	304,729.87	19.34	326,111.08	0.4	1,053.87	0.3
11,385	Disney Walt Co.	22.92	260,904.28	31.38	357,261.30	0.4	3,984.75	1.1
1,215	Factset Research Sys Inc.	53.58	65,103.35	53.87	65,452.05	0.1	145.80	0.2



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
4,320	Fortune Brands	65.25	281,866.61	69.50	300,240.00	0.3	1,814.40	0.6
11,810	Genuine Parts Co.	42.36	500,260.83	40.22	474,998.20	0.5	4,605.90	1.0
10,140	Home Depot Inc.	28.55	289,523.71	27.97	283,615.80	0.3	2,281.50	0.8
5,975	McDonalds Corp.	52.37	312,883.27	55.77	333,225.75	0.4	2,240.62	0.7
7,540	Meredith Corp.	49.21	371,045.46	38.25	288,405.00	0.3	1,621.10	0.6
13,390	News Corp-Cl A	18.51	247,795.34	18.75	251,062.50	0.3	1,874.60	0.7
1,575	Polaris Industries Inc.	41.83	65,878.00	41.01	64,590.75	0.1	598.50	0.9
2,705	Sonic Corp.	21.27	57,547.52	22.04	59,618.20	0.1	0.00	0.0
1,740	Sovran Self Storage	36.95	64,292.83	42.71	74,315.40	0.1	1,096.20	1.5
4,660	Stanley Works	56.29	262,311.40	47.62	221,909.20	0.2	1,444.60	0.7
5,355	Target Corp.	53.37	285,796.35	50.68	271,391.40	0.3	749.70	0.3
22,085	Time Warner Inc.	14.71	324,800.04	14.02	309,631.70	0.3	1,380.31	0.4
1,805	Toro Co.	46.57	84,066.26	41.39	74,708.95	0.1	270.75	0.4
8,150	Triarc Class B	8.60	70,058.22	6.91	56,316.50	0.1	733.50	1.3
2,540	Trimble Nav. Ltd	23.34	59,285.71	28.59	72,618.60	0.1	0.00	0.0
2,205	Viad Corp.	35.63	78,566.25	36.01	79,402.05	0.1	88.20	0.1
520	Washington Post Cl-B	754.95	392,572.28	661.50	343,980.00	0.4	1,118.00	0.3
1,915	Watsco, Inc.	44.11	84,464.49	41.42	79,319.30	0.1	766.00	1.0
			4,463,752.08		4,388,173.73	4.8	27,868.31	0.6
<b>TELECOMMUNICATION SERVICES</b>								
22,840	AT&T	35.36	807,676.11	38.30	874,772.00	1.0	7,365.90	0.8
6,670	American Tower Cl-A	35.61	237,525.37	39.21	261,530.70	0.3	0.00	0.0
7,420	Centurytel	34.10	253,042.78	33.24	246,640.80	0.3	500.85	0.2
25,110	Citizens Comm.	10.35	259,888.50	10.49	263,403.90	0.3	6,277.50	2.4
224	Fairpoint Comm., Inc	8.68	1,942.25	7.95	1,779.02	0.0	0.00	0.0
11,840	Verizon Comm.	36.61	433,443.50	36.29	429,642.82	0.5	5,091.20	1.2
			1,993,544.32		2,077,770.89	2.3	19,235.45	0.9
<b>INDUSTRIALS</b>								
3,730	3M Co.	75.26	280,701.90	79.15	295,229.50	0.3	1,865.00	0.6
2,055	ATMI Inc.	28.75	59,080.43	27.83	57,190.65	0.1	0.00	0.0
1,865	Acuity Brands Inc.	35.35	65,924.03	42.95	80,101.75	0.1	242.45	0.3
1,850	Albany Intl Corp.	35.31	65,317.80	36.14	66,859.00	0.1	203.50	0.3
1,150	Anixter Intl Inc.	57.02	65,574.50	64.04	73,646.00	0.1	0.00	0.0
2,225	Aptargroup Inc.	26.47	58,884.75	38.93	86,619.25	0.1	289.25	0.3
6,130	Avery Dennison Corp.	45.72	280,276.47	49.25	301,902.50	0.3	2,513.30	0.8
3,185	Baldor Electric Co.	33.38	106,304.10	28.00	89,180.00	0.1	541.45	0.6



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
1,785	Barnes Group Inc.	30.44	54,336.11	22.95	40,965.75	0.0	249.90	0.6
1,945	Belden CDT	33.56	65,265.43	35.32	68,697.40	0.1	97.25	0.1
4,185	Boeing Co.	49.60	207,574.40	74.37	311,238.45	0.3	1,674.00	0.5
4,385	Caterpillar Inc.	63.94	280,386.55	78.29	343,301.65	0.4	1,578.60	0.5
9,690	Cintas Corp.	34.73	336,503.13	28.54	276,552.60	0.3	4,457.40	1.6
1,855	Clarcor Inc.	34.56	64,106.34	35.55	65,945.25	0.1	148.40	0.2
8,005	Cooper Industries	45.60	365,040.10	40.15	321,400.75	0.4	2,001.25	0.6
1,340	Curtiss-Wright Corp.	46.93	62,892.63	41.48	55,583.20	0.1	107.20	0.2
4,880	Danaher Corp.	72.83	355,387.75	76.03	371,026.40	0.4	146.40	0.0
3,595	Deere & Company	82.94	298,164.27	80.44	289,181.80	0.3	898.75	0.3
11,920	Dover Corporation	45.59	543,421.17	41.78	498,017.60	0.5	2,384.00	0.5
4,095	Emcor Group Inc.	19.66	80,518.76	22.21	90,949.95	0.1	0.00	0.0
2,305	FLIR System, Inc.	31.43	72,446.15	30.09	69,357.45	0.1	0.00	0.0
1,995	G & K Services, Inc.	37.81	75,430.15	35.61	71,041.95	0.1	99.75	0.1
1,890	Gardner Denver Inc.	31.71	59,933.22	37.10	70,119.00	0.1	0.00	0.0
41,245	General Electric Co.	33.34	1,375,266.09	37.01	1,526,477.45	1.7	12,785.95	0.8
2,915	Grainger (W.W.) Inc.	75.77	220,883.54	76.39	222,676.85	0.2	1,020.25	0.5
6,665	Honeywell Intl., Inc.	48.18	321,087.35	56.42	376,039.30	0.4	1,832.87	0.5
7,650	Ingersoll-Rand Co.	42.73	326,855.70	44.58	341,037.00	0.4	1,377.00	0.4
3,805	Jacobs Engineering Gp.	78.43	298,442.51	73.59	280,009.95	0.3	0.00	0.0
2,035	Kaydon Corp.	42.39	86,272.77	43.91	89,356.85	0.1	305.25	0.3
1,455	Landstar System Inc.	39.13	56,932.55	52.16	75,892.80	0.1	54.56	0.1
1,885	Lennox Intl Inc.	29.53	55,654.74	35.97	67,803.45	0.1	263.90	0.4
9,155	Meadwestvaco Corp.	26.33	241,013.61	27.22	249,199.10	0.3	2,105.65	0.8
1,490	Moog Inc.	44.86	66,838.72	42.21	62,892.90	0.1	0.00	0.0
1,960	Oceaneering Intl Inc.	75.24	147,469.81	63.00	123,480.00	0.1	0.00	0.0
12,830	Pitney Bowes, Inc.	40.41	518,506.78	35.02	449,306.60	0.5	4,490.50	1.0
8,065	RR Donnelley	36.41	293,643.25	30.31	244,450.15	0.3	2,096.90	0.9
1,825	Regal Beloit	47.01	85,791.46	36.63	66,849.75	0.1	273.75	0.4
3,925	Rockwell Collins	65.51	257,137.05	57.15	224,313.75	0.2	628.00	0.3
1,455	Shaw Group Inc	60.35	87,812.74	47.14	68,588.70	0.1	0.00	0.0
5,415	Textron, Inc.	46.54	251,989.85	55.42	300,099.30	0.3	1,245.45	0.4
5,035	United Parcel Svc-Cl B	69.38	349,323.90	73.02	367,655.70	0.4	2,265.75	0.6
1,445	United Stationers Inc.	31.30	45,233.18	47.70	68,926.50	0.1	0.00	0.0
5,620	United Tech Corp.	44.11	247,899.00	68.82	386,768.40	0.4	1,798.40	0.5
3,080	Waste Connections Inc.	28.60	88,079.30	30.74	94,679.20	0.1	0.00	0.0
1,830	Watson Wyatt WW Cl-A	37.93	69,409.32	56.75	103,852.50	0.1	137.25	0.1
2,180	Woodward Governor	31.57	68,826.74	26.72	58,249.60	0.1	65.40	0.1
			9,463,863.85		9,842,748.28	10.8	52,245.21	0.5



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
<b>ENERGY</b>								
2,805	Apache Corp.	93.22	261,492.20	120.82	338,900.10	0.4	1,683.00	0.5
2,230	Cabot Oil & Gas	28.14	62,752.20	50.84	113,373.20	0.1	66.90	0.1
7,875	ChevronTexaco Corp.	44.86	353,256.80	85.36	672,210.00	0.7	4,567.50	0.7
7,885	ConocoPhillips	36.98	291,610.01	76.21	600,915.85	0.7	3,705.95	0.6
3,700	Devon Energy Corp.	79.60	294,506.68	104.33	386,021.00	0.4	518.00	0.1
22,370	Exxon Mobil Corp.	44.75	1,000,987.45	84.58	1,892,054.60	2.1	7,829.50	0.4
2,310	Helix Energy	32.52	75,132.31	31.50	72,765.00	0.1	0.00	0.0
2,080	Kirby Corp.	37.63	78,279.73	57.00	118,560.00	0.1	0.00	0.0
8,995	Nabors Industries	31.02	279,049.75	33.77	303,761.15	0.3	0.00	0.0
3,585	Noble Energy Inc	74.81	268,181.66	72.80	260,988.00	0.3	430.20	0.2
4,740	Occidental Pete	65.27	309,362.26	73.17	346,825.80	0.4	1,185.00	0.3
1,410	Penn Virginia Corp.	36.41	51,333.80	44.09	62,166.90	0.1	79.31	0.1
7,245	Rowan Cos.	31.04	224,889.55	41.18	298,349.10	0.3	724.50	0.2
5,435	Schlumberger LTD	38.89	211,354.22	87.00	472,845.00	0.5	1,141.35	0.2
1,000	Seacor Smit Inc.	82.55	82,552.61	85.36	85,360.00	0.1	0.00	0.0
1,745	St. Mary Land & Exp.	36.55	63,786.10	38.50	67,182.50	0.1	87.25	0.1
1,515	Unit Corp.	47.00	71,206.82	56.65	85,824.75	0.1	0.00	0.0
			3,979,734.14		6,178,102.95	6.8	22,018.46	0.4
<b>UTILITIES</b>								
4,205	Atmos Energy Corp.	27.70	116,464.70	25.50	107,227.50	0.1	1,366.62	1.3
3,690	Avista Corp.	25.13	92,738.52	19.56	72,176.40	0.1	608.85	0.8
16,840	Centerpoint Energy Inc.	18.52	311,802.70	14.27	240,306.80	0.3	3,073.30	1.3
6,390	DTE Energy Company	41.56	265,561.37	38.89	248,507.10	0.3	3,386.70	1.4
700	ITRON Inc.	93.98	65,785.93	90.23	63,161.00	0.1	0.00	0.0
6,811	Integry Energy Gp. Inc.	53.24	362,634.62	46.64	317,665.04	0.3	4,563.37	1.4
12,730	NICOR Inc.	44.39	565,139.24	33.51	426,582.30	0.5	5,919.45	1.4
13,230	Pepco Holdings, Inc.	25.85	341,938.61	24.72	327,045.60	0.4	3,572.10	1.1
2,540	Piedmont Nat. Gas Co.	26.07	66,219.32	26.26	66,700.40	0.1	635.00	1.0
8,330	Pinnacle West	42.52	354,196.18	35.08	292,216.40	0.3	4,373.25	1.5
3,465	Southern Union Co.	27.93	96,774.94	23.27	80,630.55	0.1	519.75	0.6
26,540	Teco Energy	16.97	450,476.31	15.95	423,313.00	0.5	5,175.30	1.2
12,865	Xcel Energy Inc.	24.07	309,606.17	19.95	256,656.75	0.3	2,958.95	1.2
			3,399,338.62		2,922,188.84	3.2	36,152.64	1.2
<b>MATERIALS</b>								
3,235	Air Prod. & Chem.	84.38	272,968.01	92.00	297,620.00	0.3	1,229.30	0.4
13,190	Bemis Company	27.54	363,232.05	25.43	335,421.70	0.4	2,901.80	0.9



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
6,960	Du Pont (E.I.)	42.68	297,083.42	46.76	325,449.60	0.4	2,853.60	0.9
4,480	Ecolab Inc.	31.76	142,284.80	43.43	194,566.40	0.2	2,329.60	1.2
3,120	Freeport MC Co. - Cl B	82.04	255,964.80	96.22	300,206.40	0.3	1,365.00	0.5
7,080	Int'l Flavors and Frag.	35.88	254,063.09	44.05	311,874.00	0.3	1,628.40	0.5
1,620	Massey Energy Co.	34.14	55,311.82	36.50	59,130.00	0.1	81.00	0.1
3,120	Monsanto Co.	103.25	322,135.63	111.50	347,880.00	0.4	546.00	0.2
5,685	PPG Industries Inc.	61.84	351,566.09	60.51	343,999.35	0.4	2,956.20	0.9
7,755	Plum Creek Timber	35.59	275,987.53	40.70	315,628.50	0.3	3,257.10	1.0
12,530	Sealed Air	24.10	301,951.56	25.25	316,382.50	0.3	1,503.60	0.5
7,115	Sigma-Aldrich	29.68	211,189.57	59.65	424,409.75	0.5	924.95	0.2
610	Valmont Industries	93.18	56,838.21	87.89	53,612.90	0.1	64.05	0.1
			3,160,576.58		3,626,181.10	4.0	21,640.60	0.6
	COMMON STOCK Total		50,669,330.51		54,371,370.26	59.8	356,229.45	0.7
<b>U.S. TREASURY NOTES/BONDS</b>								
500,000	U.S. Treasury Note 5.000% Due 02-15-11	108.56	542,812.50	109.09	545,468.75	0.6	25,000.00	4.6
500,000	U.S. Treasury Note 5.000% Due 08-15-11	113.59	567,968.75	110.00	550,000.00	0.6	25,000.00	4.5
200,000	U.S. Treasury Note 4.875% Due 02-15-12	99.57	199,140.63	110.31	220,625.00	0.2	9,750.00	4.4
110,000	U.S. Treasury Note 4.750% Due 05-31-12	105.02	115,517.60	109.69	120,656.25	0.1	5,225.00	4.3
210,000	U.S. Treasury Note 4.875% Due 06-30-12	105.62	221,812.50	110.19	231,393.75	0.3	10,237.50	4.4
275,000	U.S. Treasury Note 4.625% Due 07-31-12	104.58	287,589.50	109.31	300,609.37	0.3	12,718.75	4.2
500,000	U.S. Treasury Note 4.250% Due 08-15-13	100.03	500,156.25	108.87	544,375.00	0.6	21,250.00	3.9
475,000	U.S. Treasury Note 4.750% Due 05-15-14	105.68	501,980.00	112.25	533,187.50	0.6	22,562.50	4.2
500,000	U.S. Treasury Note 4.500% Due 11-15-15	100.12	500,625.00	110.50	552,500.00	0.6	22,500.00	4.1
50,000	U.S. Treasury Note 4.875% Due 08-15-16	106.08	53,039.00	112.00	56,000.00	0.1	2,437.50	4.4
500,000	U.S. Treasury Bond 8.750% Due 05-15-17	135.03	675,156.25	140.91	704,531.25	0.8	43,750.00	6.2
	Accrued Interest				50,139.30	0.1		
	U.S. TREASURY NOTES/BONDS Total		4,165,797.98		4,409,486.17	4.9	200,431.25	4.6

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
<b>GOVERNMENT AGENCIES</b>								
500,000	Fed Home Loan Bank 5.805% Due 03-23-09	100.00	500,000.00	103.41	517,031.25	0.6	29,025.00	5.6
500,000	Tenn Valley Authority 6.000% Due 03-15-13	101.58	507,880.00	112.00	560,014.50	0.6	30,000.00	5.4
150,000	Fed Home Loan Mtg 4.500% Due 07-15-13	101.22	151,828.50	105.34	158,015.62	0.2	6,750.00	4.3
270,000	Fed Natl Mtg Assoc 4.625% Due 10-15-13	101.25	273,375.00	106.03	286,284.37	0.3	12,487.50	4.4
500,000	Fed Natl Mtg Assoc 5.500% Due 12-30-14	99.56	497,812.50	100.66	503,281.25	0.6	27,500.00	5.5
500,000	Fed Natl Mtg Assoc 5.000% Due 06-26-15	95.50	477,500.00	100.06	500,312.50	0.6	25,000.00	5.0
360,000	Fed Natl Mtg Assoc 5.000% Due 03-15-16	101.97	367,088.40	106.84	384,637.50	0.4	18,000.00	4.7
300,000	Fed Natl Mtg Assoc 6.250% Due 05-15-29 Accrued Interest	115.35	346,045.50	117.91	353,718.75	0.4	18,750.00	5.3
GOVERNMENT AGENCIES Total			<u>3,121,529.90</u>		<u>3,293,812.76</u>	<u>3.6</u>	<u>167,512.50</u>	<u>5.1</u>
<b>MORTGAGE BACKED SECURITIES</b>								
FNMA/FHLMC								
146,694	FGCI #E97963 5.000% Due 07-01-18	101.78	149,307.29	101.48	148,865.38	0.2	7,334.71	4.9
313,477	FGCI #G18008 4.500% Due 09-01-19	100.31	314,456.19	99.74	312,667.81	0.3	14,106.45	4.5
244,897	FNCI #831192 5.000% Due 11-01-20	98.79	241,923.77	101.17	247,752.28	0.3	12,244.84	4.9
448,306	FGCI #G11900 5.500% Due 02-01-21	98.91	443,402.33	102.26	458,432.90	0.5	24,656.81	5.4
794,794	FGCI #G12335 5.000% Due 05-01-21	98.59	783,617.17	101.23	804,546.08	0.9	39,739.70	4.9
595,081	FNCL #886599 5.500% Due 08-01-21	99.52	592,198.86	102.22	608,309.94	0.7	32,729.47	5.4
267,493	FGCI #G18175 5.500% Due 04-01-22	100.37	268,493.70	102.09	273,086.57	0.3	14,712.13	5.4
193,933	FGCI #G12777 5.000% Due 08-01-22	98.83	191,655.19	101.10	196,066.34	0.2	9,696.65	4.9
269,478	FNCI #969663 5.500% Due 08-01-22	100.41	270,569.86	102.17	275,323.42	0.3	14,821.31	5.4



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
345,552	FNCL #799556 5.000% Due 11-01-34	99.64	344,310.00	99.19	342,766.67	0.4	17,277.59	5.0
827,716	FNCL# 832869 5.000% Due 09-01-35	96.80	801,203.13	99.12	820,440.29	0.9	41,385.80	5.0
166,233	FNCL #805625 5.500% Due 12-01-35	98.47	163,687.36	101.15	168,144.48	0.2	9,142.80	5.4
417,277	FNCL #852028 6.000% Due 01-01-36	99.16	413,756.67	102.62	428,214.29	0.5	25,036.65	5.8
797,669	FNCL #868450 5.500% Due 04-01-36	99.22	791,436.77	101.07	806,203.61	0.9	43,871.77	5.4
1,077,221	FNCL #938289 5.500% Due 07-01-37	98.68	1,063,001.68	101.04	1,088,434.82	1.2	59,247.15	5.4
240,482	FGLMC #G03216 5.000% Due 09-01-37	96.12	231,146.72	99.11	238,344.30	0.3	12,024.11	5.0
328,989	FNCL #899719 5.000% Due 09-01-37	96.12	316,217.98	99.05	325,877.12	0.4	16,449.47	5.0
1,558,174	FNCL #256925 6.000% Due 10-01-37 Accrued Interest	100.77	1,570,109.30	102.53	1,597,610.89	1.8	93,490.41	5.9
					13,785.26	0.0		
			8,950,493.97		9,154,872.45	10.1	487,967.83	5.3
GNMA								
210,513	GNJO #605142 4.500% Due 03-15-19	100.75	212,092.06	100.32	211,180.54	0.2	9,473.09	4.5
190,784	GNSF #594139 5.000% Due 10-15-33	100.09	190,963.12	100.19	191,142.93	0.2	9,539.21	5.0
374,483	GNSF #671531 5.500% Due 09-15-37 Accrued Interest	100.25	375,419.30	102.12	382,429.60	0.4	20,596.57	5.4
					2,499.76	0.0		
			778,474.48		787,252.83	0.9	39,608.88	5.0
	MORTGAGE BACKED SECURITIES Total		9,728,968.45		9,942,125.28	10.9	527,576.70	5.3
<b>COMMERCIAL MORTGAGE BACKED SECURITIES</b>								
750,000	GS Mortgage Sec 5.396% Due 08-10-38	101.28	759,609.38	101.42	760,635.00	0.8	40,470.00	5.3
500,000	Merrill Lynch Mtg Tr 5.499% Due 01-12-44	96.99	484,941.41	88.23	441,150.00	0.5	27,497.19	6.2
1,000,000	JPMCC 2006-LDP9 A3 5.336% Due 05-15-47 Accrued Interest	99.09	990,937.50	97.01	970,110.00	1.1	53,360.00	5.5
					6,183.55	0.0		
	COMMERCIAL MORTGAGE BACKED SECURITIES Total		2,235,488.29		2,178,078.55	2.4	121,327.19	5.6

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
<b>CORPORATE BONDS</b>								
UTILITY BONDS								
1,000,000	Georgia Power 5.125% Due 11-15-12	97.28	972,810.00	104.28	1,042,755.00	1.1	51,250.00	4.9
142,000	Duke Energy Corp. 5.300% Due 10-01-15	101.07	143,515.10	103.43	146,876.14	0.2	7,526.00	5.1
300,000	Natl Rural Utilities 7.200% Due 10-01-15	119.23	357,705.00	111.76	335,271.00	0.4	21,600.00	6.4
140,000	Carolina Power & Light 5.250% Due 12-15-15	100.44	140,616.00	102.60	143,642.80	0.2	7,350.00	5.1
110,000	SBC Comm Inc. 5.625% Due 06-15-16	101.37	111,508.10	100.28	110,311.96	0.1	6,187.50	5.6
500,000	South Carolina E&G 5.300% Due 05-15-33	105.04	525,222.50	90.57	452,867.50	0.5	26,500.00	5.9
500,000	Comcast Corp. 6.450% Due 03-15-37	101.42	507,095.00	94.23	471,169.50	0.5	32,250.00	6.8
	Accrued Interest				49,354.60	0.1		
			2,758,471.70		2,752,248.50	3.0	152,663.50	5.6
FINANCIAL BONDS								
1,500,000	Countrywide Home 3.250% Due 05-21-08	97.50	1,462,500.00	98.07	1,471,050.00	1.6	48,750.00	3.3
140,000	Gen. Elec. Cap. Corp. 4.875% Due 10-21-10	102.21	143,089.80	103.93	145,496.12	0.2	6,825.00	4.7
500,000	National City Bank 6.250% Due 03-15-11	100.00	500,000.00	96.00	480,014.50	0.5	31,250.00	6.5
500,000	Household Finance 6.375% Due 11-15-12	115.58	577,912.50	101.28	506,412.00	0.6	31,875.00	6.3
500,000	Progressive Corp. 7.000% Due 10-01-13	94.84	474,220.00	110.03	550,139.50	0.6	35,000.00	6.4
700,000	Bear Stearns Co. 5.700% Due 11-15-14	98.58	690,032.00	96.21	673,476.30	0.7	39,900.00	5.9
110,000	Gen. Elec. Cap. Corp. 5.400% Due 02-15-17	101.59	111,750.10	101.54	111,698.07	0.1	5,940.00	5.3
500,000	Hartford Financial 5.375% Due 03-15-17	97.04	485,225.00	96.91	484,533.00	0.5	26,875.00	5.5
500,000	Lehman Bros. Holdings 6.500% Due 07-19-17	98.70	493,480.00	94.96	474,823.00	0.5	32,500.00	6.8
	Accrued Interest				74,032.33	0.1		
			4,938,209.40		4,971,674.82	5.5	258,915.00	5.3

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
INDUSTRIAL BONDS								
500,000	Whitman Corp 6.375% Due 05-01-09	112.74	563,715.00	104.07	520,339.50	0.6	31,875.00	6.1
142,000	United Technologies 4.375% Due 05-01-10	100.76	143,076.40	102.51	145,564.91	0.2	6,212.50	4.3
500,000	Avon Products 5.125% Due 01-15-11	97.96	489,820.00	102.46	512,304.00	0.6	25,625.00	5.0
60,000	IBM Corp. 4.950% Due 03-22-11	101.89	61,134.00	104.61	62,767.92	0.1	2,970.00	4.7
375,000	Estee Lauder Cos Inc. 6.000% Due 01-15-12	110.31	413,658.75	107.39	402,718.12	0.4	22,500.00	5.6
140,000	Pepsico Inc. 5.150% Due 05-15-12	103.96	145,539.80	106.00	148,393.42	0.2	7,210.00	4.9
142,000	GE Company 5.000% Due 02-01-13	101.48	144,108.70	103.58	147,086.87	0.2	7,100.00	4.8
500,000	Wal-Mart Stores 7.250% Due 06-01-13	105.58	527,925.00	114.22	571,118.00	0.6	36,250.00	6.3
100,000	Schering-Plough 5.300% Due 12-01-13	101.31	101,313.00	103.28	103,282.00	0.1	5,300.00	5.1
500,000	Deere & Company 6.950% Due 04-25-14	107.33	536,670.00	110.93	554,659.00	0.6	34,750.00	6.3
645,000	Cisco Systems 5.500% Due 02-22-16	98.29	633,966.00	103.46	667,321.51	0.7	35,475.00	5.3
134,000	Abbott Labs 5.875% Due 05-15-16	104.44	139,944.20	106.60	142,839.58	0.2	7,872.50	5.5
500,000	Anheuser Busch 5.050% Due 10-15-16	100.18	500,918.63	100.83	504,129.00	0.6	25,250.00	5.0
450,000	Coca-Cola Enter 7.125% Due 08-01-17	118.68	534,051.00	115.84	521,279.55	0.6	32,062.50	6.2
1,000,000	J.C. Penney 5.750% Due 02-15-18	96.74	967,400.00	92.33	923,292.00	1.0	57,500.00	6.2
550,000	Kerr-McGee Corp 6.950% Due 07-01-24	104.28	573,556.50	106.01	583,069.30	0.6	38,225.00	6.6
500,000	IBM Corp. 7.000% Due 10-30-25	112.65	563,240.00	110.30	551,510.50	0.6	35,000.00	6.3
323,000	Proctor & Gamble 5.550% Due 03-05-37	100.28	323,901.20	99.85	322,521.96	0.4	17,926.50	5.6
	Accrued Interest				115,504.69	0.1		
			7,363,938.18		7,499,701.84	8.3	429,104.00	5.8
	CORPORATE BONDS Total		15,060,619.28		15,223,625.15	16.8	840,682.50	5.6



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
<b>CASH &amp; EQUIVALENTS</b>								
	Dividend Accrual		93,563.26		93,563.26	0.1	0.00	0.0
	Inventor MMF		1,371,897.37		1,371,897.37	1.5	42,528.82	3.1
	Investor MMF		0.00		0.00	0.0	0.00	3.1
	MMF Interest Accrual		2,313.00		2,313.00	0.0	80.95	3.5
	CASH & EQUIVALENTS Total		1,467,773.63		1,467,773.63	1.6	42,609.77	2.9
<b>TOTAL PORTFOLIO</b>			<b>86,449,508.03</b>		<b>90,886,271.81</b>	<b>100.0</b>	<b>2,256,369.37</b>	<b>2.5</b>



## Trying to Get Up Off the Mat

Bernanke Offers a Hand, As Stocks Fall in Quarter; Where's the Turning Point?

By Tom Lauricella.  
Wall Street Journal

After the beating that the stock market took during the first three months of 2008, one question seems to be on everyone's mind: Is it over?

The first quarter was one for the history books. The Dow Jones Industrial Average finished March down 7.6% from where it started the year, at 12262.89, marking its worst quarter in 5½ years since the depths of the tech stock bust.

Shares were driven south by the never-before-seen turmoil in the bond markets that climaxed with the dramatic collapse of Bear Stearns Cos., one of Wall Street's biggest firms, and forced unparalleled actions from the Federal Reserve in order to shore up for the financial system.

Over the past three months, the Dow lost 1001.93 points, its largest first-quarter point decline in the history of the index. Meanwhile, the five months of losses on the Standard & Poor's 500-stock index mark that benchmark's longest losing streak since October 1990.

But it's anything but clear as to whether stocks have hit their lows. When the first quarter began, many on Wall Street thought the U.S. economy would avoid recession. Now the debate is over how long and how deep the downturn will be.

At the start of the year, corporate-profit growth was expected to slow, but remain positive. Now, first- and second-quarter earnings are expected to decline, and the unknown is whether an expected big rebound in the second half of the year will materialize.

A number of optimists on Wall Street think the turning point will come sooner rather than later, thanks in large part to the Federal Reserve's aggressive efforts to stabilize the financial system and reduce short-term interest rates.

Pessimists contend that job losses are only just beginning, and home-price declines appear to be accelerating. Meanwhile, raw-materials

### A Tough Quarter First-quarter performance; daily closes

#### Dow Jones Industrials

1Q close: 12262.89, down 7.6%

14000

13000

12000

11000

Jan. Feb. March

#### Nasdaq Composite

1Q close: 2279.10, down 14%

2750

2500

2250

2000

Jan. Feb. March

#### S&P 500

1Q close: 1322.70, down 9.9%

1500

1400

1300

Jan. Feb. March

Source: WSJ Market Data Group

costs remain stubbornly high, despite the slowdown in the U.S. economy, which will likely pinch consumers more and crimp corporate profits. These market watchers say the bulls are jumping the gun.

Whatever happens next, the first quarter of 2008 forced market participants to dig deeper and deeper into the past for comparisons.

The speed of the decline was faster than the March 2000–October 2002 bear market, troubles for banks and real estate reminded many of the woes

that led to the 1990 stock downdraft, and record-high oil prices harkened back to the stagflation of the 1970s, when rising prices combined with stagnant consumer demand and relatively high unemployment. The Fed's efforts to stave off a collapse of the financial system as Bear Stearns teetered toward bankruptcy had officials dusting off Depression-era rules.

After its first-quarter decline, the Dow is down 13% from its record close of 14164.53, hit Oct. 9, 2007.

The Standard & Poor's 500-stock index, which has a heavy weighting of financial stocks, took a bigger hit in the first quarter, losing 9.9% to 1322.70, and is down 16% from its October record.

The Nasdaq Composite Index, which outperformed both the DJIA and the S&P 500 in 2007, lost 14% during the first quarter and is down 20% from its recent high in October. The Russell 2000 index of small-company stocks, which are seen as most vulnerable to a recession, is down 10% this year and has lost 20% from its most recent high.

These losses occurred against the backdrop of volatility in the stock market not seen since the world-wide economic slump that began with the stock-market collapse of Oct. 28–29, 1929, and continued through most of the 1930s. The S&P 500 moved more than 1% on 51% of the trading days in the first quarter, the biggest percentage since 1934 and the fifth-largest percentage in the index's history.

On Monday, the stock market finished the quarter on a quiet, but modestly positive, note. Helped by a nearly 4% drop in crude-oil prices, the Dow rose 0.4%, or 46.49 points. With Monday's gain, the Dow came close to breaking a streak of monthly declines, but it ultimately fell short. The Dow hasn't had a winning month since October.

Although it is small comfort to investors totting up their losses for the first quarter, the Dow and the S&P 500 haven't reached the 20% peak-to-trough decline that is the traditional definition of a bear market. Both indexes hit their lows for the quarter in the days before the collapse of Bear Stearns, amid concerns that the entire financial system was in danger of seizing up. On March 10, the Dow closed down 17% from its October peak, and the S&P 500 finished down 18.6% from its high. Since then, the Dow has rebounded 5% and the S&P 500 has bounced 4%.

If stocks don't pierce their March 10 lows, and if it turns out the U.S. economy is in a recession, it would be the first time since 1961 that an economic downturn isn't accompanied by an official bear market. (A bear market did start in December 1961, but that was after the recession ended. There also have been bear markets that didn't coincide with recessions.)

The bounce that thus far has kept the Dow and S&P 500 from bear-market territory is largely the result of the Fed's moves to improve liquidity in the credit markets, such as giving brokerage firms access to short-term loans from its lending window. In addition, since the start of the year the Fed has slashed the key federal-funds rate to 2.25% from 4.25%, and it backed J.P. Morgan Chase & Co.'s deal to acquire Bear Stearns.

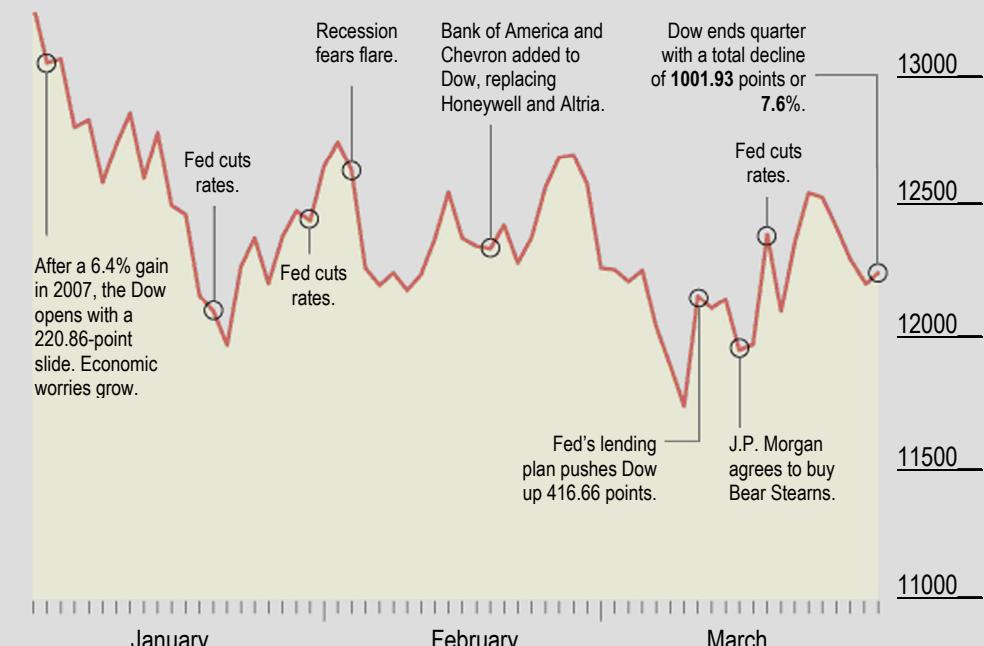
The Fed's role in helping Bear Stearns avoid bankruptcy, though it remains contentious, was interpreted as a sign the central bank will take whatever steps necessary, if officials believe the financial system is in danger of unraveling.

"The risk of that happening has gone down substantially," says Binky Chadha, chief U.S. equity strategist at Deutsche Bank AG. The Fed's actions "reduced the downside risk" for stocks.

Mr. Chadha is among those who believe a bottom for stocks is near and that a rebound could begin as soon as this month, based on his belief that the U.S. economy is midway through a two-quarter-long recession.

## Dow Rewind: The Industrials' First-Quarter Performance

The Dow Jones Industrial Average in the January-February-March Quarter



Source: WSJ Market Data Group

When Brian Rauscher, market strategist at Brown Brothers Harriman & Co., goes sector by sector through the market, he doesn't see enough bullish indicators in place to suggest the market is ready to begin a sustained rally. But he also doesn't see a big push to new lows in the S&P 500.

"For someone to be really bearish, they have to make the case that earnings are ready to collapse...and that the economy is really collapsing," Mr. Rauscher says. "That isn't evident to me right now."

But Subodh Kumar, who heads up Toronto-based Subodh Kumar & Associates, sees a potential problem for the market. He argues that earnings estimates will be revised sharply lower as companies report first-quarter results and provide forecasts for the rest of the year. Until the market reflects that, he doesn't think stocks have hit bottom yet.

Still, Mr. Kumar doesn't think the bottom is far off.

"The market will set a low in the second quarter, and from there we'll set a new cycle in late 2008 and into 2009, driven by an earnings recovery and accommodative central banks," he says.